

THE FUNCTIONS OF THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL

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WHEN the National Economic Development Council was set up nearly two years ago, it was widely assumed that this was an institution for economic planning. The Council has now published three reports of what it is doing and thinking; and it is perhaps time to consider what function it performs, what it can be expected to perform, and whether this is what is required for economic planning.

The Status of NEDC

The most important feature of NEDC's constitution is that it is not a government department, nor part of one. It has no executive function or powers, and cannot have any. But the fact that it stands outside the administration proper, and does not have to contribute to the principle of ministerial responsibility, means that it can say—and publish—things which are not yet Government policy; it could conceivably publish things which are in direct conflict with Government policy. Moreover, the non-ministerial members of the Council (six trade unionists, six industrialists, two chairmen of nationalised industries, and two economists) are able to express their views on controversial matters much more freely, and sign their names more willingly to the Council's reports, than they would if they were directly contributing to the formation of Government policy in the way that, say, departmental committees do.

The Office of NEDC also has an unusual status. Its members are public servants in a general way. But they are not the servants of the Government. They do not, therefore, need to feel bound by declared Government policy in discussing problems and plans with industry, trade unions, or anyone else in non-Government circles. However, in order to attain this freedom they have to sacrifice the right to see confidential documents which circulate only in government departments proper, because they are not covered by the Official Secrets Act (*i.e.*, they are not required to give an undertaking never to reveal any information they may come across in the performance of their duties).

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Its Terms of Reference

The terms of reference of NEDC itself are :

- (a) To examine the economic performance of the nation with particular concern for plans for the future in both the private and the public sectors of industry;
- (b) To consider together what are the obstacles to quicker growth, what can be done to improve efficiency and whether the best use is being made of our resources;
- (c) To seek agreement upon ways of improving economic performance, competitive power and efficiency; in other words, to increase the rate of sound growth.

As it stands, these aims do not really constitute a planning body, still less a planning authority. They provide for discussion of general economic policy problems among senior Ministers (three of whom, the Chancellor of the Exchequer, the President of the Board of Trade, and the Minister of Labour, are members of NEDC), leading industrialists and trade unionists. The problems of increasing growth are particularly emphasised, though no problem of economic policy could be specifically excluded by reference to these terms.

The first official suggestion that there should again be some sort of planning body including non-Government members was made by the Chancellor (then Mr. Selwyn Lloyd) in July 1961. At this time, as a result of the demonstrably better rates of growth of output and trade achieved in EEC countries, especially in France, there was a lot of interest among economists (including officials) in French planning methods. It is possible, therefore, that NEDC's peculiar constitution owes something to the Commissariat Général du Plan.

The French Example

This in turn was originally the creation of Jean Monnet in the early days of post-war reconstruction. The principle on which it was constituted was that of the "*économie concertée*"; that is an economy in which the units, regardless of their ownership or status, should all be working towards a common, specific goal. The forward-looking economy should rely on collective enterprise rather than either state or private enterprise alone. The common goal, the Plan, would only be pursued successfully if all affected by it had taken part in discussing and deciding it. Planning must be done by those to be planned. Hence the planning authority must be not

part of the ordinary Government service, but a new representative body, the members representing important firms, employers' organisations, trade unions, consumers, and experts (mostly academics). The C. G. du P. itself has no funds, no executive powers and a small staff. In so far as it influences policy, it does it through the Ministry of Finance and Economic Affairs. No Minister is a member of C. G. du P., but the President of the C. G. du P. is consulted by Ministers, and even attends Cabinet meetings. Most of the work is done, not by the Commissariat itself, but by the "modernisation commissions" and their sub-committees. These are committees representative of all the interests mentioned, for each main industrial sector. Their most important function is the discussion and co-ordination of investment plans.

It is not certain, of course, that all this had any effect whatever on the official proposals in Britain. What probably did happen was that some of the contempt that planning had unjustifiably fallen into as a result of the British attempts at it in 1947-50 was obliterated by the demonstration that economies structurally rather like Britain that indulged in planning (e.g., Norway, Sweden, Netherlands, as well as France) could increase their national product faster than Britain seemed able to achieve. Beyond that, there were plenty of relevant precedents in British administration to predispose officials or politicians in favour of some institution similar to the French, however much, or little, they appreciated the French philosophy of planning. There were, for instance, the Economic Planning Board (set up in 1947) and the National Production Advisory Council, both representing industrialists and trade unionists.

NEDC's First Task

Having been set up, after some months' hesitation by the TUC, the Council itself decided

"that the first main task should be the preparation of a report studying the average annual rate of growth of 4 per cent. for the period 1961-66 or nearly 22 per cent. over the whole period; and that the staff should:

- (a) discuss with a selected cross-section of industry in the private and public sectors the impact of the rate for them; and
- (b) study the general economic implications of the faster growth for the main components of the national economy, e.g., for manpower, investment, and the balance of payments".

These aims are more recognisably economic planning, in that at least they call for a quantitative projection over a specified period

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on certain definite assumptions. The staff's two jobs also look reasonable as a general description of the work necessary to formulate an economic plan. From the start, therefore, the Office had two distinct functions, dealt with by two distinct sections: drawing up a model of the British economy; and getting in contact with industry (in particular with seventeen key industries) about their ideas on future developments.

NEDC's first report, entitled "Growth of the United Kingdom Economy to 1966", contains what most people would expect to find in an "economic plan". It begins with an account of the results of the preliminary inquiries among the seventeen industries. Then follows a series of estimates of the total national product in 1966, based on certain carefully described assumptions and forecasts; there are complementary budgets for the factors of production, for employment, investment, and energy; and there are some forecasts of demand or consumption in various sectors.

NEDC's second report, entitled "Conditions Favourable to Faster Growth", is a sort of supplement to the first. It takes model-building no further at all, nor does it modify or elaborate the results of the industrial inquiries. It is confined to discussing in rather general terms a number of problems which appear to be the most important conditions for increasing the expansion of output. The problems "are in the main those which arose from the industrial inquiries", though they are clearly also the result of NEDC's own discussions. The discussions relate to Education; Mobility and Redundancy; Regional questions; Balance of Payments policies; Taxation; Level of Demand; Prices and Incomes; Government, Management, and Trade Unions.

None of the diagnoses or proposals are startlingly new. What is novel though is the statement of them from an official source with the agreement of senior Cabinet Ministers, leading trade unionists, and industrialists. As a commentary on the economy and its outstanding problems, the report is only to be welcomed, and its specific recommendations make much economic sense. But it is the peculiar constitutional status of the Council and its documents which raises questions about exactly what its work to date can be taken to represent.

What do the Reports Signify ?

The NEDC reports do not record Government economic policy: they comment generally, sometimes by implication criticising Government policy, occasionally supporting it. On the other hand

they commit no one to doing anything. The Government is involved, since three of its members are also members of the Council, and it is difficult to believe that senior Ministers would take part in NEDC discussions, and agree to a recommendation of the Council, when they know that this was not their policy and would not be. However, it was clear from the Budget speech that the present Chancellor (Mr. R. Maudling) did regard himself as committed in a general way to NEDC's aims.

"The purpose of the Budget . . . is to do the Government's part in achieving the rate of growth . . . which we have already accepted in the National Economic Development Council."

How the various detailed recommendations are to be interpreted is far from clear. There are broadly three classes of recommendation: those which require decisions or actions that are important enough, or of such general application that they would be matters of Cabinet discussion and decision; those which call for decision or action by departments or Ministers; and those which call for decision or action by bodies outside the Government, such as trade unions or industrial managements. Within the second category there are matters which are the proper business of Ministers who are members of the Council, and matters concerning Ministers who are not.

Matters for the Cabinet

Among the first class of major questions come things like the level of demand, financing the balance of payments, regional mal-distribution of resources, and price and income policy. On all these the Chancellor of the Exchequer has most responsibility among Ministers. But the Prime Minister, let alone other Ministers, or the House of Commons, is hardly likely to allow such matters to be decided by the Chancellor after consulting NEDC, *instead of* by the Chancellor after consulting his ministerial colleagues and submitting his proposals to Parliament. NEDC reports are not Government documents, still less are they Cabinet memoranda, and as things stand there would be nothing remarkable about the Cabinet considering and taking action on a document quite inconsistent with NEDC recommendations. As we have seen, the present Chancellor feels himself sufficiently committed at least to NEDC's general aims to achieve some synthesis of his own. However, what would also be interesting to know is whether the Chancellor took advice in parallel from NEDC and the Treasury, or whether the Treasury was asked its advice on NEDC's advice (a much more probable supposition). If the Chancellor did not seek Treasury advice on NEDC's

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advice, he might well find himself taking sides for or against his own officials, based on the views of a non-departmental, though in some sense official, organisation. If he takes NEDC seriously, it might well be looked on as a rival to the Treasury—especially by the Treasury. If he takes his department seriously, he must surely in the last resort carry the Treasury's views to NEDC rather than the other way round. The rivalry is perhaps all too likely if it is also remembered that there is practically no formal contact at all between NEDC staff and Treasury officials. The wall of Official Secrets sees to that.

The Position of Government Departments

It is not only the Treasury which might find a rival in an effective NEDC. There are other government departments as vitally concerned, notably the Board of Trade. One of the specific jobs allotted to the Office of the Council is establishing close contacts with industries or firms to discover their future plans, and incidentally persuade them to have some future plans where they do not exist, especially about investment, employment, and exports. But this might be thought to be one of the jobs that the Board of Trade together with the Ministry of Power and possibly the Ministry of Labour ought to do, providing they are not staffed with officials whose general philosophy is still that it is none of their business.

A justification for this apparent confusion might be made as follows. If, in fact, government departments have not done, and still do not do, the basic work on which an economic plan for growth can be based, either in the way of model-building, or in the way of having the right sort of close communication with industry, then it is an all-round advantage in having it done by someone, even if there has to be a new office to do it. Moreover, there is an advantage in having both jobs done by trained economists (on NEDC staff), instead of either mostly, but not wholly (in the Treasury), or hardly at all (in other economic departments). This is probably valid, so long as the preliminaries are concerned—formulating the model, and discussing the problems. When we reach recommendations though, assuming for the moment we are to take them seriously, such problems cannot be ignored.

Are the Council's recommendations to become Government policy? Partly or wholly? Who is to act on them, and how are they to be fed into the departmental machinery? There was a clear answer to these questions in the case of the 1947 *Economic Survey*, a previous planning document. It was a statement of Government

policy. It could be—and was—debated in Parliament, and Ministers elaborated their views. In the case of NEDC's reports it is not even clear that Ministers would take any responsibility for the reports, were they to be debated. There may be some advantage in having reports on economic policy that are not the subject of party controversy; general approval or disapproval of instruments of economic policy on party lines have often proved most unhelpful over the past ten years or so. But whether this is so or not, the fact remains that if NEDC documents are kept out of politics, and hence out of Parliament, they would not (and probably should not) impinge directly on Government policy, and are not likely to alter the administrative decisions and attitudes of the economic departments.

Consequences for the Private Sector

So far, only recommendations on general policies have been discussed. When it comes to taking action on the plan itself, the problems are even more confusing and difficult. It is clear even from the limited investigations already made that almost all the seventeen industries reviewed, and probably a great many more, would be affected by adopting the plan as Government policy. In some cases (*e.g.*, electricity and cars) demand would be higher than the industries now expect and are planning to meet; in some cases (notably chemicals, machine tools, and electricity and its main suppliers) extra investment would be needed to provide the extra output, and building the extra capacity ought to begin as soon as possible.

It might be expected that adopting the plan specifically would help all major industries as well as the economy as a whole. Knowing that the Government, their suppliers, and their customers were all aiming at a level of output and demand consistent with their own part in the plan would make the risk of overproducing or underproducing in relation to demand much less. It would also provide a much-needed assurance of more buoyant demand in general than has happened in the past. Indeed, this is one of the main reasons for planning a mixed economy. However, these benefits can hardly accrue unless it is abundantly clear that it is not just the vague general implications of "growth" that is the basis of Government policy. What is needed is commitment to figures and dates and quantities: otherwise it is not really possible to measure the implications of the plan in sufficient detail to make any sense of even large firms in major industries. Most firms, especially below the giants, have accountants rather than economists to do their own

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planning and forecasting, and accountants are even more dependent than economists on figuring before they can reach any conclusion.

Moreover, if industrialists feel there is some doubt or reservation about the Government's commitment (as, of course, they do with a General Election pending, and confusion about the relation between NEDC "planning" and Treasury policy-making) they may feel that the risk they take in believing the plan might turn out to be larger than the risk attached to sticking to their own "unplanned" ideas about demand and supply. And sticking to their ideas means sticking to their investment and output plans, which in turn would make it impossible to achieve Government targets and programmes.

A Full Government Commitment

Wholehearted Government commitment to planning may be necessary also to make planning techniques better. Given the general intention to plan, this is neither an easy nor riskless procedure. Forecasting all that is involved in terms of inputs required to reach given outputs as well as find demands for the product, several years ahead, either for a major industry or for the whole economy has to be done with seriously incomplete information about the past and with seriously inefficient techniques for using it. Consequently, mistakes have been made, and can be expected. For instance, the capacity of the steel industry has been "planned" in recent years, that is investment decisions have been based more or less on detailed estimates of demand and requirements; but the industry has nevertheless finished up with capacity considerably in excess of what is now thought to be required to meet considerably more than present demand. The reason for this might be partly that forecasting future demand for one industry, even a major one, in an economy for which there is no plan, is necessarily more difficult than doing it within the framework of a general plan, because there are no general principles of economic policy which can safely be projected. But it seems that part of the answer must also be that the input-output relations between steel and the rest of the economy were wrongly forecast—a mistake which would still have been made within a general plan.

The Risks of Planning

The conclusion to be drawn from this might be that planning itself is too risky a business, because planning mistakes might be bigger

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than the sum of little mistakes which individual firms or industries make in ignorance (though it is difficult to see how this view could be justified in detail). On the other hand, the sort of mistakes which have occurred in the past in forecasting would be lessened by greater attention to planning, because more effort would then be concentrated on improving both information and techniques required for planning.

As matters stand at present, NEDC has begun on two distinct tasks: formulating a model of the economy in 1966, on the assumption of 4 per cent. growth; and discussing some major obstacles to faster growth. To carry either task much further, in the sense of influencing if not determining economic policy, NEDC seems to have too nebulous a connection with the administration. But what changes or developments might be appropriate depends very much on what its proper functions are. If it is to be an instrument of planning in the proper sense, then the first of its tasks, the model-building and exploring, together with contacts with industry over the plan and its implications, is the important one. If its main job is to influence ideas and attitudes among Ministers, industrialists, and trade unionists to make them more receptive to proposals which might promote faster growth, then model-building may only be relevant in so far as it helps to reveal the size of the problems and their possible consequences.

These two possible functions are not exclusive. But emphasis on the one or the other probably requires rather different developments to make NEDC's ideas effective.

In the first case, there seems no special reason for having medium- or long-term projection done by an extra-Government body. Some, if not all, this work is, presumably, done in the National Economy Division of the Treasury. If the estimates and methods are the same, there is clear duplication of effort—by very scarce people. If they are different, the differences, whether they are differences of technique or of view about the future, are surely better reconciled either within one working unit or between officials and an outside research body, such as the National Institute for Economic and Social Research. There seems no point in having rivalry between two official staffs, with hardly any formal contact, over estimates of the same thing, when these estimates are required as the technical basis for policy decisions. The logic of regarding planning as the prime function of NEDC is to put it and its staff in closer contact with Government administration, in particular with the Treasury.

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Is NEDC Too Isolated ?

When it comes to carrying out what is implied by the plan, there is also a lot to be said for integrating NEDC more with the administration. Much turns on the contact between officials and industry, in public or private sector. Their mutual understanding of the estimates, and what is involved in achieving them is an essential part both of making possible plans and of carrying them out. But government departments already exist to perform such a function, notably the Board of Trade and the Ministry of Power. It could be that for some reason, the NEDC Office can develop better contacts with industry on this sort of topic than officials have been doing. But again it is difficult to see how such a function can be better performed in the long run, either in duplication of or in rivalry to government departments. If it is in addition to what departments are doing, it might well be asked what is or would be, so much more important than getting industry to work in accordance with general economic policy, that officials cannot do it.

If, on the other hand, the prime function of NEDC is to air problems and ideas among a few people who can themselves influence economic developments in a major way, constitutional changes may not be appropriate. Disseminating economic ideas, and getting some agreements about them among people habitually hostile to one another on such matters, is a slow process. Getting something done about the Council's conclusions would require the Ministers who are members to adopt them as their policy. In the discussions themselves, the less officials are involved the better, and there is everything to be said for having an independent staff who are not inhibited by the obligations of the Official Secrets Act, nor by their Minister's (or Permanent Secretary's) present policy. It is no doubt this aspect of NEDC's work which has won a large measure of approval from trade union leaders. Although the TUC Economic Committee eventually (January 1962) gave its approval and sent six of its number as representative to NEDC, it was clear that the TUC itself regarded the innovation as no more than another experimental enterprise, whose value might be just worth testing by participation.

The Attitude of the TUC

It is also clear, however, that the TUC's approval is still qualified by the original conditions on which it agreed to participate:

“ . . . they attach great importance to the right of members of the Council to report to the organisations which they represent, and that they would not

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regard association with the Council as debarring those organisations from expressing in public such reservations as they might hold about Government decisions on economic policy".

In particular, the suggestion that NEDC might be fitted into the administration proper a bit more closely, as many Labour leaders are inclined to favour, has so far met with opposition from the TUC. As well as the trade unions' reluctance to sacrifice their independence—from any government—there is the point that having gathered together a body of people because of their knowledge and influence in industry, they must have an independent expert staff under their exclusive direction, to support their deliberations.

A proper discussion of economic policy, especially if it really is to lead to an agreed plan, has to include the TUC. Their views about NEDC's constitution are necessarily important. The new amalgam of employers, replacing the National Union of Manufacturers, the Federation of British Industries, and the British Employers' Federation, may produce a view of NEDC more representative of industrialists than it has yet been possible to find. It should also help to make NEDC deliberations more authoritative.

But such considerations do not settle the question of how planning ought to be done. This side of NEDC's work is not an alternative to planning proper; it is an essential supplement to it. Planning is not likely to be done effectively in Britain without general discussion of economic problems, and better contact between Ministers and industrial leaders. But the discussion itself does not constitute planning, desirable though it may be, and influential though it may be.

NEDC Not a Planning Body

The NEDC as it stands is not an appropriate body for doing a planning job. Its work up to now has been quite valuable even in the space of a few months; but it only leads to confusion to call what it is doing economic planning. If we are to make full use of NEDC's work, planning is required, since it is difficult to see how any particular rate of growth can be achieved without co-ordinated quantitative estimates of what is required, followed by vigorous actions to make the programme effective. The instrument of economic planning itself has still to be established. There seems a good case for putting it much closer to the ordinary government departments, especially the Treasury, than NEDC is.

This immediately raises the question of whether there should be a Ministry of Planning or an independent Planning Commission.

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There is serious objection to such bodies, which follows from what has been said in criticism of NEDC. There would then be an organisation for making estimates of the future shape of the economy, in rivalry with the Treasury. It would hardly be possible to detach such a function from the Treasury now, however narrow a view one might take of its functions. The control of Government expenditure at least is the proper concern of the Treasury, and Government expenditure is one of the most important determinants both of the pattern of production and consumption, and of the level of demand generally. No Chancellor could conscientiously accept estimates or proposals from a Minister of Planning, and no Minister of Planning could really be responsible for economic planning if he could neither formulate all of it, nor control some of the most important instruments for carrying it out. To appoint a super-Minister of Planning, senior to the Chancellor of the Exchequer, having all the required powers, would relegate the Chancellor to something like the position of the Financial Secretary to the Treasury. What would in fact happen, assuming that vast duplication of staff and function were avoided, would be little more than change of names at the ministerial levels.

When a beginning was made before with economic planning, in 1947, there was an Economic Planning Board, and an Economic Planning staff, at first independent, then in 1950 transferred to the Treasury. Its terms of reference were what now seems to be required: its task was:

"to advise His Majesty's Government on the best uses of our economic resources, both for the realisation of long-term plans and for the remaining measure against our immediate difficulties".

During this period, the Planning Board and Planning staff had little impact on the economic policy and even less on the economic structure. But it is arguable that the reason for this was not because the structure was inappropriate, nor its job impossible, but because it almost immediately got involved in a very special piece of work, namely, all the figuring and forecasting required for the Marshall programme of dollar aid to Western Europe.

There is much more general sympathy with economic planning as a good method of determining economic policy than at any time before, probably including the early days of the post-war Labour Government. But it also seems to be taken too much for granted that appropriate machinery already exists, in the form of NEDC, and that the job has begun. There is little justification for such an assumption: indeed, some crucial decisions have still to be taken.